

become “the first service provider in the United States to deploy 100 Gbps . . . optical technology across a long haul fiber network on a nationwide basis.”<sup>35</sup> XO’s Ethernet private line services offer a “[b]road nationwide reach to more than 85 . . . markets,” and its metropolitan networks include “more than 1 million fiber miles.”<sup>36</sup>

Level 3’s network includes “54,000 intercity route miles in North America connecting more than 150 cities,” “26,000 metro route miles in North America,” including “116 metro fiber networks in the United States,” and access to “more than 8000 on-net buildings.”<sup>37</sup> In addition to “lit” services, Level 3’s dark fiber offering gives customers “control over scalability and capacity management, network management, technology evolution, and reliability and network uptime . . .”<sup>38</sup> President Jeff K. Storey told investors last year that the company had “100,000 buildings within 500 feet of [its] network,” and thus “can add those buildings at a very low cost. . . .”<sup>39</sup> That approach, he explained, reflected the company’s preferred means of expansion: “When we

XO Communications, *Ethernet Services*, <http://www.xo.com/carrier/transport/ethernet/> (last visited Nov. 13, 2013).

<sup>35</sup> Press Release, XO Communications, *XO Communications First Service Provider to Deploy 100G Nationwide* (Aug. 14, 2012), available at <http://www.xo.com/about/news/Pages/539.aspx>.

<sup>36</sup> XO Communications, *Ethernet Private Line*, <http://www.xo.com/services/network/ethernet/Pages/EthernetPrivateLine.aspx> (last visited Nov. 13, 2013).

<sup>37</sup> See Level 3, *Level 3 Dark Fiber Service*, at 2, [http://cdn1.cust.footprint.net/prod/App\\_Data/Replicated/MediaFiles/4/E/D/%7B4ED3E219-0F8B-4A96-9028-591C50F9195B%7Dbrochure\\_dark\\_fiber\\_004.pdf](http://cdn1.cust.footprint.net/prod/App_Data/Replicated/MediaFiles/4/E/D/%7B4ED3E219-0F8B-4A96-9028-591C50F9195B%7Dbrochure_dark_fiber_004.pdf) (last visited Nov. 13, 2013).

<sup>38</sup> *Id.* at 1.

<sup>39</sup> Corrected Transcript of Level 3 Communications, Inc., Bank of America Merrill Lynch Media, Communications and Entertainment Conference, at 5 (Sept. 12, 2012), appended as Attachment 21 to the Petition.

get a customer, if we can turn up that building quickly enough, we'll turn up the building on fiber and never use an off-net service.”<sup>40</sup>

Smaller entities also successfully target specific enterprise customer niches. Cbeyond, for example, has deployed fiber facilities to about 1000 buildings, and emphasizes that its presence in those buildings provides “the opportunity . . . to serve an additional seven, eight, nine, 10 or more customers in those same buildings, with little or no additional expense,” opening a potential for “huge revenue[s].”<sup>41</sup> EarthLink operates a network “spanning 29,941 fiber route miles with 90 metro fiber rings and 8 secure data centers providing ubiquitous nationwide data and voice IP service coverage across more than 90 percent of the country.”<sup>42</sup>

Cable MSOs are also making deep inroads into the provision of enterprise broadband services, ratcheting up capital expenditures and enjoying significant revenue growth in this segment. By mid-year 2013, cable MSOs were making significant gains in market penetration<sup>43</sup> and bringing intense competition to the mid and small business sectors, “resulting in very favorable pricing for customers.”<sup>44</sup> Cable providers are in the “ideal position to develop

<sup>40</sup> *Id.* at 10.

<sup>41</sup> Corrected Transcript of Cbeyond, Inc., Bank of America Merrill Lynch Media, Communications and Entertainment Conference, at 4 (Sept. 12, 2012) (J. Robert Fugate, Executive Vice President and Chief Financial Officer, Cbeyond, Inc.), appended as Attachment 22 to the Petition.

<sup>42</sup> EarthLink, *EarthLink at a glance*, <http://www.earthlink.net/med/www/about/EarthLink-Glance.pdf> (last visited Nov. 14, 2013).

<sup>43</sup> See *IDC Market Analysis Perspective* at 21 (“Cable MSOs increasing market share gains in Ethernet.”).

<sup>44</sup> VSG Mid-Year 2013 Ethernet Leaderboard (quoting Rick Malone, principal at Vertical Systems Group). “For the first time, the Cable MSO segment had more new Ethernet port installations than the Incumbent Carrier segment.” *Id.*

comprehensive carrier Ethernet architecture to support a wide range of business services,” as they pass three-quarters of the nation’s businesses.<sup>45</sup> They have “emerged . . . as formidable facilities-based Ethernet providers in the mid-market; owning and operating their own national optical fiber core network infrastructure based on MPLS/DWDM technology . . . .”<sup>46</sup>

Cable providers now offer online services providing 100 Mbps download and 20 Mbps upload speeds for \$199.95 per month, a price point that is substantially below CenturyLink’s traditional rates for a 20 Mbps Ethernet product. Such cable services are winning customers in the small and mid-sized business segments -- customers that would have considered Ethernet options in the past -- at three times the rate that CenturyLink has been able to accomplish with its high bandwidth offerings.<sup>47</sup>

By 2011, Comcast, Time Warner Cable, and Cox had each passed \$1 billion in annual “commercial services” revenue, with steady growth predicted in upcoming years.<sup>48</sup> Moreover, Insight projects that cable operators will see “commercial service” revenues grow at a compound

<sup>45</sup> The Insight Research Corp., *Cable TV Enterprise Services: 2012-2017*, at 88, 105 (Sept. 2012) (“Cable Enterprise Services”), appended as Attachment 23 to the Petition. According to Insight, cable operators “have secured close to 30 percent of the Ethernet market, more so within the metro, a share which is certain to grow as Comcast, the largest MSO, continues to ramp up its Ethernet penetration.” *Insight Ethernet Report* at 69.

<sup>46</sup> Frost & Sullivan, *Cable MSO Ethernet Strategy: Moving Up-Market for New Opportunities*, at 13 (Mar. 2012), appended as Attachment 24 to the Petition.

<sup>47</sup> Downs Declaration ¶ 8.

<sup>48</sup> See Cable Enterprise Services at 26, 115. Indeed, in 2012, Comcast’s business service revenues climbed 34% to 2.4 billion. See News Release, Comcast, *Comcast Reports 4th Quarter and Year End 2012 Results* (Feb. 12, 2013), available at <http://www.cmcsk.com/releasedetail.cfm?ReleaseID=739834>.



annual rate of 10 percent annually through 2017,<sup>49</sup> while their market share for such services grows from 8 percent in 2012 to 13.3 percent in 2017.<sup>50</sup>

Comcast touts its suite of scalable enterprise services as a flexible alternative to incumbent LEC services.<sup>51</sup> For example, Comcast offers Ethernet private line services in “flexible, scalable point-to-point configurations delivering high-capacity fiber connections between two sites,” with business-class support, at capacities ranging from 1 Mbps to 10 Gbps.<sup>52</sup> It also offers Ethernet VPN service (“an ideal replacement for frame relay or ATM services,” configurable from 1 Mbps to 10 Gbps)<sup>53</sup> and “[a]ny-to-any connectivity” between physically distributed locations.<sup>54</sup> Comcast invested \$607 million in business-service Capex in 2011 alone,<sup>55</sup> and has seen “strong returns well above [its] cost of capital.”<sup>56</sup>

<sup>49</sup> Cable Enterprise Services at 115.

<sup>50</sup> *Id.* at 9. Insight also projects that cable providers’ revenues from wholesale businesses will grow from \$0.7 billion to \$1.5 billion from 2012 to 2017. *Id.* at 135.

<sup>51</sup> See Comcast Business, *Ethernet Services*, <http://business.comcast.com/enterprise/services/data> (last visited Nov. 13, 2013).

<sup>52</sup> Comcast, *Ethernet Private Line*, <http://business.comcast.com/enterprise/services/data/ethernet-private-line> (last visited Nov. 15, 2013).

<sup>53</sup> Comcast, *Ethernet Virtual Private Line*, <http://business.comcast.com/enterprise/services/data/ethernet-virtual-private-line> (last visited Nov. 15, 2013).

<sup>54</sup> Comcast, *Ethernet Network Service*, <http://business.comcast.com/enterprise/services/data/ethernet-network-service> (last visited Nov. 15, 2013).

<sup>55</sup> Corrected Transcript of Comcast Corp., Q4 2011 Earnings Call, at 6 (Feb. 15, 2012) (Michael J. Angelakis, Vice Chairman & Chief Financial Officer, Comcast Corp.), appended as Attachment 25 to the Petition.

On Comcast's third-quarter 2012 earnings call, Vice Chairman and Chief Financial Officer Michael Angelakis reported that the company "continue[d] to experience strength in [its] Business Services Group . . . with revenue increasing 34% to \$621 million" for the quarter.<sup>57</sup> Angelakis also has noted that Comcast had begun by targeting businesses with 20 or fewer employees, but has moved on to serving businesses with between 20 and approximately 250 employees.<sup>58</sup> Comcast is also seeing growth in its cell-site backhaul offerings, noting in early 2012 that it had "increased the number of installed towers by about 79% since 2010."<sup>59</sup> Angelakis noted near the end of 2012 that "the existing addressable market for [Comcast's] Business Services group is probably around \$20 billion to \$25 billion, and we're in the \$2.5 billion range so somewhere around 10%."<sup>60</sup>

<sup>56</sup> Corrected Transcript of Comcast Corp., Q1 2012 Earnings Call, at 5 (May 2, 2012) (Michael J. Angelakis, Vice Chairman & Chief Financial Officer, Comcast Corp.) ("Comcast Q1 2012 Call"), appended as Attachment 26 to the Petition.

<sup>57</sup> Corrected Transcript of Comcast Corp., 3Q 2012 Earnings Call, at 5 (Oct. 26, 2012) (Michael J. Angelakis, Vice Chairman & Chief Financial Officer, Comcast Corp.), appended as Attachment 27 to the Petition. Comcast's "momentum in business services continue[d] with revenue increased 32% in the fourth quarter and 34% for the full year for total revenue of \$2.4 billion [in] 2012." Transcript of Comcast Corp., 4Q 2012 Earnings Call, at 6 (Feb. 13, 2013) (Michael J. Angelakis, Vice Chairman & Chief Financial Officer, Comcast Corp.), appended as Attachment 28 to the Petition.

<sup>58</sup> Corrected Transcript of Comcast Corp., Wells Fargo Securities Technology, Media & Telecom Conference, at 8-9 (Nov. 7, 2012) (Michael J. Angelakis, Vice Chairman & Chief Financial Officer, Comcast Corp.) ("Angelakis Wells Fargo"), appended as Attachment 29 to the Petition.

<sup>59</sup> Comcast Q1 2012 Call, at 9 (Neil Smit, President & Chief Executive Officer, Comcast Cable Communications LLC).

<sup>60</sup> Angelakis Wells Fargo at 9.

Time Warner Cable ("TWC") is seeing similar success and opportunity. The company offers business-class Ethernet services with "scalable bandwidth speeds ranging from sub-T1 to 10 Gbps."<sup>61</sup> In 2012, TWC doubled the number of commercial buildings connected to fiber, and enjoyed "organic growth of more than 20%" among enterprise customers.<sup>62</sup> TWC CEO Glenn Britt observed last year that business and government services were the company's largest growth area. "I think it is only going to get bigger as we look at different verticals and the changes going on and our economy around us. . . . [T]he sky is the limit in this area."<sup>63</sup> This past January, TWC reorganized its management structure, creating a new business unit responsible for enterprise services -- a change meant to "reflect[]" that segment's "increasing importance" and position the company "to fully capitalize on this significant growth opportunity."<sup>64</sup>

Cox is also competing successfully for high-capacity customers. As of last year, Cox had 290,000 business and wholesale customers,<sup>65</sup> and was the fifth largest provider of U.S. Business

<sup>61</sup> See Time Warner Business Class, *Ethernet Private Line (EPL)*, FierceMarketplace HealthTech, <http://www.jazdhealthcare.com/healthtech/company/Time-Warner-Cable-Inc/EPL.htm?supplierId=20001474&productId=16562> (last visited Nov. 13, 2013).

<sup>62</sup> Corrected Transcript of Time Warner Cable, Inc., Q4 2012 Earnings Call, at 3-4 (Jan. 31, 2013) (Robert D. Marcus, President & Chief Operating Officer, Time Warner Cable, Inc.), appended as Attachment 30 to the Petition.

<sup>63</sup> Corrected Transcript of Time Warner Cable, Inc., UBS Global Media and Communications Conference, at 11-12 (Dec. 3, 2012) (Glenn A. Britt, Chairman & Chief Executive Officer, Time Warner Cable, Inc.), appended as Attachment 31 to the Petition.

<sup>64</sup> Press Release, Time Warner Cable, *Time Warner Cable Announces New Organizational Structure*, (Jan. 23, 2013), available at [http://www.timewarnercable.com/en/about-us/press/time\\_warner\\_cable\\_new\\_organizational\\_structure.html](http://www.timewarnercable.com/en/about-us/press/time_warner_cable_new_organizational_structure.html).

<sup>65</sup> Press Release, Cox Communications, *Cox Launches Mobile Version of Small Business Social Destination* (Oct. 9, 2012), available at <http://cox.mediaroom.com/index.php?s=43&item=634>.



Ethernet Services.<sup>66</sup> Cox's customers include healthcare, hospitality, and education providers as well as government agencies and wireless providers requiring cell-site backhaul.<sup>67</sup> Cox Business owns and operates a national backbone comprising 13,000 miles of fiber, with tailored offerings for businesses, including 10 Gbps speeds available to those with the most demanding requirements.<sup>68</sup> In September 2012, Cox announced the first market for its new 80 Mbps and 100 Mbps offerings for small and medium business customers; the company intends to expand this offering into additional markets.<sup>69</sup>

Cablevision's business services unit, branded Lightpath, provides "Ethernet-based communications solutions for New York metropolitan area businesses," "leveraging the flexibility of Ethernet to create product suites for the education, healthcare and government verticals, as well as adding Next Generation Hosted Voice, Conference Bundle, Managed Video and Managed WiFi to its managed services lineup."<sup>70</sup> In the fourth quarter of 2012, Lightpath achieved a 13.2% increase in revenue from Ethernet services.<sup>71</sup>

Cox also touts its expertise providing business services to these industries, in addition to the real estate and residential communities industries. *See generally* Cox, Business Industries, <http://ww2.cox.com/business/lasvegas/industries.cox> (last visited Nov. 15, 2013).

<sup>66</sup> VSG 2012 Ethernet Leaderboard.

<sup>67</sup> *See, generally*, Cox, Business Industries, <http://ww2.cox.com/business/lasvegas/industries.cox> (last visited Nov. 15, 2013).

<sup>68</sup> Press Release, Cox Communications, *Cox Business Continues to Meet Customer Needs with Launch of Accelerated Broadband Tiers* (Sept. 12, 2012), available at <http://cox.mediaroom.com/index.php?s=43&item=631>.

<sup>69</sup> *Id.*

<sup>70</sup> Press Release, Lightpath, *Lightpath Introduces New Branding and Logo* (Dec. 5, 2012), available at

As wireless technology continues to mature, high-capacity services once available only over copper, coaxial cable, or fiber optics are increasingly being provisioned over the airwaves. For example, Broad Sky networks “now offers Spectrum 4GWiMAX, a fixed-wireless solution[,] in 88 markets[.]”<sup>72</sup> Its networks “are built on fixed-wireless technology that is scalable up to GigE speeds” not reliant on “T1 or DS3 increments.”<sup>73</sup> Broad Sky also offers 4G LTE enterprise services “to replace expensive frame relay,” with “download speeds averaging 10MB.”<sup>74</sup> XO has broadband wireless spectrum in 80 major metropolitan markets to provide Broadband Wireless Access for Ethernet, Private Line and dedicated Internet access services.<sup>75</sup> Its “Fixed Broadband Wireless Access” service offers “an alternative last-mile and metro-area access solution” with “speeds up to 1 Gbps.”<sup>76</sup>

[https://golightpath.com/pressreleases?p\\_p\\_id=56\\_INSTANCE\\_K0en&p\\_p\\_lifecycle=0&p\\_p\\_state=normal&p\\_p\\_mode=view&p\\_p\\_col\\_id=column-2&p\\_p\\_col\\_count=2&articleId=340393](https://golightpath.com/pressreleases?p_p_id=56_INSTANCE_K0en&p_p_lifecycle=0&p_p_state=normal&p_p_mode=view&p_p_col_id=column-2&p_p_col_count=2&articleId=340393).

<sup>71</sup> Press Release, Cablevision, *Cablevision Systems Corporation Reports Fourth Quarter and Full Year 2012 Results*, at 3 (Feb. 28, 2013), available at <http://www.cablevision.com/pdf/news/022813.pdf>.

<sup>72</sup> See BroadSkyNetworks, *Broadband Internet Snapshot Pricing*, <http://www.broadskynetworks.net/pricing.html> (last visited Nov. 15, 2013).

<sup>73</sup> *Id.*

<sup>74</sup> See BroadSkyNetworks, *Broad Sky's Spectrum 3G/4G LTE Fixed Wireless Service*, <http://www.broadskynetworks.net/4G-LTE-Business-Router-Back.html> (last visited Nov. 15, 2013).

<sup>75</sup> See XO Communications, *Network Assets Maps*, <http://www.xo.com/about/network/Pages/maps.aspx> (last visited Nov. 13, 2013).

<sup>76</sup> XO Communications, *Fixed Broadband Wireless Access*, <http://www.xo.com/services/network/Pages/broadband-wireless.aspx> (last visited Nov. 13, 2013).



Others are also exploring opportunities in the wireless space. BridgeWave uses millimeter-wave spectrum to provide “full gigabit (GigE) wireless transmission [as] an affordable alternative to high capacity leased circuits.”<sup>77</sup> BridgeWave cites “many advantages of utilizing high-capacity gigabit wireless links,” including “a rapid return-on-investment,” the absence of recurring costs, ease of deployment, and scalability.<sup>78</sup> Towerstream offers high-speed Internet access to businesses in 13 major markets.<sup>79</sup> It highlights its ability to place antennas “in locations where it is not physically possible or financially feasible to install fiber,” recognizing that, in those cases, its network provides a means by which carriers and other users can “backhaul their traffic to an aggregation location of their choice.”<sup>80</sup>

<sup>77</sup> BridgeWave Communications, *Gigabit Wireless Leased-Line Replacement*, at 2 (2011), [http://www.digitalairwireless.com/files/Leased-Line-Replacement\\_1332962764.pdf](http://www.digitalairwireless.com/files/Leased-Line-Replacement_1332962764.pdf) (last visited Nov. 13, 2013).

<sup>78</sup> BridgeWave Communications, *Leased-Line Replacement*, <http://www.bridgewave.com/solutions/leased-line-replacement.cfm> (last visited Nov. 13, 2013).

<sup>79</sup> See Towerstream, *About Towerstream*, <http://www.towerstream.com/Company.aspx> (last visited Nov. 15, 2013).

<sup>80</sup> Corrected Transcript of Towerstream Corp., Q3 2012 Earnings Call, at 3 (Nov. 8, 2012) (Joseph Hernon, Chief Financial Officer, Towerstream Corp.), appended as Attachment 32 to the Petition. Additional Ethernet providers include Alpheus Communications, American Telesis, Bright House Networks, BT Global Services, Canby, Cincinnati Bell, Cogent, Consolidated Communications, Expedient, FairPoint Communications, IP Networks, Lightower (includes Sidera Networks), LS Networks, Lumos Networks, Masergy, NTT America, Orange Business, Reliance Globalcom, SuddenLink, Tata, US Signal, Virtela, Zayo Group and others. VSG Mid-Year 2013 Ethernet Leaderboard.

**REDACTED - FOR PUBLIC INSPECTION**

**Attachment 12**

**REDACTED – FOR PUBLIC INSPECTION**

**(Confidential Document Omitted In Its Entirety)**

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**Attachment 13**

**REDACTED – FOR PUBLIC INSPECTION**

**(Confidential Document Omitted In Its Entirety)**



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**Attachment 14**

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**Attachment 15**

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**Attachment 18**

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**(Confidential Document Omitted In Its Entirety)**

**Attachment 19**



## **tw telecom's CEO Discusses Q4 2012 Results - Earnings Call Transcript**

### **Executives**

Carole Curtin

Larissa L. Herda - Chairman, CEO and President

Mark A. Peters - CFO and EVP

John Blount – Chief Operating Officer

Mike Rouleau – SVP of Business Development Strategy

### **Analysts**

Simon Flannery - Morgan Stanley

Brett Feldman – Deutsche Bank AG

Colby Snyesael – Cowen and Company, LLC

Barry McCarver - Stevens

Frank G. Louthan - Raymond James & Associates, Inc.

Michael Rollins - Citigroup Inc

Timothy K. Horan - Oppenheimer & Co. Inc.

Donna Jaegers - D.A. Davidson & Co.

Thomas O. Seitz - Jefferies & Company, Inc.

tw telecom (TWTC) Q4 2012 Earnings Call February 12, 2013 11:00 AM ET

### **Operator**

Good morning, and welcome to tw telecom's fourth quarter 2012 conference call. Today's call is being recorded. With us from the company is Chairman, Chief Executive Officer, and President, Ms. Larissa Herda and Executive Vice President and Chief Financial Officer, Mr. Mark Peters. At this time, I'll turn the call over to Carole Curtin, Vice President of Investor Relations. Please go ahead.

### **Carole Curtin**

Welcome everyone to tw telecom's conference call. We're pleased to have you join us today.

To review our results for the quarter, please see our website at [www.twtelecom.com](http://www.twtelecom.com) where you can find our press release, supplemental quarterly information, and SEC filings.

Before we start, I'd like to draw your attention to our Safe Harbor statement included in our supplemental materials, which you can find on our website. Information on our quarterly earnings materials in our discussion today contain statements about expected future events and financial results that are forward-looking and are subject to risks and uncertainties. A discussion of factors that may cause our results to differ materially from our expectations is contained in our filings with the SEC under risk factors and elsewhere available on our website.

I would also like to point out that our earnings materials and discussion contain certain non-GAAP financial measures. You can find reconciliations between the non-GAAP and GAAP financial measures in the materials on our website.

Now I'm pleased to introduce tw telecom's Chairman, CEO, and President, Larissa Herda.

**Larissa Herda**

Thanks, Carole. Hi, everyone and thank you for joining us today.

2012 was another good year. We strategically advanced our new product and network capabilities. At the same time, we once again achieved strong comprehensive financial results. So let me start by recapping a few of our operational and strategic accomplishments.

We delivered industry leading innovation with the rapid deployment of our new intelligent network capabilities. And while we've been setting the foundation in place for some time, our team's ability to design, test, operationalize, train, launch, and commence selling the first two phases of these new capabilities in 2012 was a substantial accomplishment. And even better, we're already starting to see the results.

Through our ongoing innovation, we're becoming a disruptive force in the industry. And we're changing the game. That's because we're challenging enterprise's operating paradigm by re-defining how customers think about their enterprise eco-system substantially changing choice and flexibility for customers and dramatically improving the interaction between our customer's networks and applications to make them more successful.

Our business is focused on ongoing execution while constantly positioning ourselves for the future. For example, our commitment to Ethernet has been unprecedented. And was one of our early disruptive efforts of changing both our business and the industry and we led that charge. For more than a decade, our innovation has consistently resulted in us being recognized as a top three provider in Ethernet nationally. We continued that differentiation with recent innovations, such as our E-Access or one to many services that enables Ethernet access across our entire network from a single connection point as well as our intelligent network capabilities to provide dynamic capacity for Ethernet services.

Much like the success of our Ethernet services, we expect our new intelligent network to increase the trajectory of strategic services over time. And since the launch of these new intelligent network capabilities, they're doing just what we had expected, which is opening more doors and closing more deals for the sales of our strategic services.

We delivered some very innovative capabilities in 2012, which did not go unnoticed in the industry. In November, we were recognized with several awards including the prestigious 2012 North America Carrier Ethernet award for best business Ethernet application by the metro Ethernet forum for our unique and innovative dynamic capacity capabilities.

Summing up the year, we executed well strategically, operationally, and financially. 2012 was another milestone in our growth story, which demonstrates our ability to innovate and differentiate



our capabilities, produce strong financial results, and drive shareholder value, all of which were possible due to our ongoing strategic choices.

As we look to 2013, we expect to provide customers with unprecedented visibility and control over their networks, which we believe will accelerate the momentum in our business through several growth initiatives including enabling new disruptive technologies for increased innovation and differentiation, growing our sales force for greater distribution capabilities to increase our sales trajectory, and automating new network functionality for more dynamic customer interaction and connectivity options. Our initiatives are all focused on increasing the momentum in our business including the sale of our strategic services and our part of our long-term vision of moving our business from a leading managed network provider to a leading provider of instantaneous network enablement solutions for enterprise and IT environments through our future installation platform, which we're introducing the vision of today.

Our constellation platform will break all the rules of the traditional Telco operating model. By leveraging everything we've built from our massive fiber infrastructure and one network platform to our intelligent network, we will be taking enterprise networking and cloud enablement to another level by providing our customers the ability to instantaneously click and connect dedicated network services to hundreds of data centers and thousands of applications in an incremental use what you need for as long as you need it and pay as you go strategy.

These future platform capabilities will enable enterprise's needs for implementing corporate wide networks while offering them unprecedented choice. We believe our industry has never seen breakthrough capabilities like this before.

There's a titanic shift in the data center and cloud world that has been occurring, which is disrupting the market. With our intelligent network and our future constellation platform, we believe we're right in the middle of some very large and growing demand and well positioned to capitalize on these opportunities by changing the game. So I'll talk more about that in a moment.

But first, Mark is going to review our results and new growth initiatives.

**Mark A. Peters**

Thanks, Larissa, and hello everyone.

Today, I'm going to provide some financial highlights for both the year and the fourth quarter. And then spend some time on our 2013 growth initiatives including our expectations for capital and margins.

Let me start with our financial highlights for the full year. As you know from our press release, revenue grew for the eighth consecutive year. And for 2012, revenue grew 7.6% driven by our data and internet growth engine, which grew 15.4% for the year. The 7.6% top line growth drove an 8.6% growth in M-EBITDA and a 36.8% margin. Plus \$77 million in net income, which was a 33% increase from last year. This growth in M-EBITDA plus lower CapEx as a percentage of revenue compared to the prior year resulted in \$130 million in levered free cash flow, a 42% increase over last year.

So in a nutshell, for 2012, we had strong top line growth, sufficient capital deployment, and very high growth in our net income and cash flow, but the balance sheet that allows us to continue our growth initiatives.

Stepping back to the fourth quarter results, we delivered 7.5% year-over-year revenue growth and 2.4% sequentially, which was our 33rd consecutive quarter top line growth with data and internet now representing 52% of our total revenue.



For the quarter, data and internet revenue grew 15.2% year-over-year and 4.6% sequentially including a \$2.2 million favorable customer settlement.

Modified EBITDA grew 8% year-over-year as we delivered a strong 36.6% modified EBITDA margin and net income of \$17.3 million.

We also delivered a 4.6% levered free cash flow margin for the quarter.

We produced strong comprehensive results in 2012 as we continued to manage the business with our balanced approach, balance approach toward revenue growth, margins, and cash flow.

As you can see from our results, we emphasized margin cash flow a bit more last year, which drove our 42% increase in levered free cash flow. And giving all the market uncertainty in 2012, we think that was the right focus.

Although our approach in 2012 resulted in increased sales, it did so at a growth rate less than the rate at which our total revenue grew. So in light of the strong demand we're seeing and the strength of our current and new offerings, we believe it's the right time to increase investing for more growth.

With the objective of increasing our sales growth rate, we're implementing several initiatives, which I'll highlight. But before I do, keep in mind that it will take some time to see the top line results. That is why you'll be hearing us say we expect them to start contributing to higher growth later in 2013.

These growth initiatives include the following. First, expanding our sales reach through an increase in our sales and support resources to increase the future trajectory of our bookings. Second, investing in new technologies to deliver new and innovative capabilities to primarily drive our strategic data and internet services. Third, further automating network functionality to enable more dynamic customer connections to drive more growth. And fourth, continued expansion of our network reach in existing and adjacent markets to reach more customers. This is a coordinated growth plan to prepare us for the transition occurring in the industry. And we believe these initiatives will help position us to win more share.

Now let me expand on our sales initiatives. Our 2012 sales reflected increased productivity from both our direct sales team and momentum in our indirect channel, which contributed to our growing revenue base.

The recurring revenue and nature of our business contributes to the consistency of our results. Each year for the past eight years, we have grown our top line and with that, our base of recurring revenue. That also means we must grow our absolute new sales even more than this growing base in order to maintain or expand our total growth rate. This dynamic leads us to our growth initiatives to invest in more today, to increase our sales reach, and ongoing sales production.

We spoke to you last quarter about expanding our direct sales force. And we added 6% more sales associates in the fourth quarter, which occurred largely in December. As part of our 2013 growth initiatives, we expect to further expand our sales associates by nearly another 10% by the end of this year. This is in contrast to 2012 with average sales associate headcount was down from the prior year. We will also be simultaneously adding support resources to help quickly ramp productivity to compliment this increase in our sales team.

For us, adding sales resources is not just increasing the size of our team. It's also adding depth and changing the complexion of our resources to align with our strategic vision.

Here's a recap of the key sales investments. Including first, increase in our local sales channel particularly in markets where we see the greatest opportunity. Second, expanding our very



successful indirect sales channel, which we found is opening up new opportunities for us so we previously could not penetrate. Third, growing our wholesale team because of the new product portfolio we have including E-Access or one to many for finding a great deal of interest from international carriers. Fourth, increase in our national enterprise sales team to further leverage our intelligent network and other new capabilities for very large customers. And last, expanding our federal sales team, which is a small but mighty group that has been gaining more traction in the past year.

For all these sales areas that I just described, we're focused on bringing in talent with new skills including deeper IT centric knowledge. These new resources map to the innovation in our product roadmap and our broader strategic vision that Larissa is going to be expanding on in a moment. And their target is to areas where we expect to gain the quickest traction.

From a revenue production perspective, it will take a while for these new resources to be productive and in time for our sales to translate into reported revenue for expectation of sales and revenue growth increasing later in 2013, which we believe will set us up nicely for 2014. The sales investment naturally has a current impact to margins and will for a while until we build up the returning revenue growth rate at which point we expect the new revenue will absorb the cost of expanded sales resources and allow margins to expand again. We anticipate this will begin to occur later in the year as the revenue growth ramps back up. So don't get too excited when you see margins go down in the near term. We know our model works and we've done this before. As you know from our model, the driver of our margins and cash flow is building density and scale. We're trying to do that faster to take advantage of the demand we see in the market for current and future capabilities.

Larissa will talk about the remaining initiatives that reference including rolling out new network and product capabilities, further automating customer interactions, and continuing to expand our existing market reach. These initiatives will largely be absorbed in our CapEx with some lesser impacts to margin.

Now to CapEx, for the year, we invested \$343 million in each 2012 and 2011. Or 23.4% of revenue in 2012 and a GP increase of improvements from 25.1% in 2011 with success based initiatives reflecting the majority of these investments.

In 2013, we expect capital intensity to remain similar to 2012. And expect approximately \$360 to \$370 million in CapEx with the majority related to new success based sales opportunities.

Before I close, I want to highlight that when you look at the long-term trend lines of our business, they are incredibly consistent. However like most businesses, our results fluctuate from quarter to quarter. As we mentioned in the earnings release, due to the convergence of several items, we expect a fairly low first quarter revenue growth rate, some one time and seasonal items, as well as the timing of [inaudible] installations including the impact of the low third quarter sales that we discussed last quarter.

We also expect that margins will be dampened in the near term for both the investment and growth initiatives I discussed as well as an estimated \$4 million seasonal impact primarily related to the re-setting of payroll taxes. That said, we're in a great position to continue to expand our market share and grow our business as we progress throughout the year.

Also a quick comment on our stock buyback program. Over the past year, our practice has been to opportunistically manage our purchases to capitalize on the forecasted 2012 economic trends, fiscal cliff, and debt ceiling events that were expected to impact the stock market. This approach has resulted in us executing on about \$22 million of our \$300 million stock repurchase program from its inception to the end of the year.



With the first call date of our convertible debt coming up in April, we'll be taking a fresh look at our program. Now to be clear, I'm not saying that we'll call the convert in April. But the time is right to review our approach in order to thoughtfully and efficiently return value to our shareholders in this manner.

In closing, 2012 again demonstrated the success and incredible consistency of our model and strategy as we delivered strong comprehensive results. We are taking thoughtful and delivered measures in 2013 to continue to fuel our future revenue growth and to once again deliver strong balance in comprehensive results to grow shareholder value.

With that, I'll hand the call back to Larissa.

**Larissa Herda**

Thanks, Mark.

Today, I'd like to talk about our 2013 priorities. I'll start by spending some time sharing our broader strategic vision for the future, which as I mentioned earlier, we're calling our constellation platform. Then compasses our foundational intelligent network, but it goes well beyond that. This broader vision creates a powerful new operating paradigm for enterprises and how they interact with their network, third party data centers, and cloud services.

Our vision for our constellation platform includes increasing the velocity of how customers buy our dedicated network services driven by the ability to more quickly access and consume network and IT services. To achieve that increased philosophy requires changing enterprise's traditional network constraints for security, flexibility, choice, speed, and ease of use. We believe that automation and rapid connectivity are the future versus the circuit-by-circuit dedicated connectivity of the past as enterprises need to shop, buy, consume, and manage services differently as well as interact with their network providers in a new way.

As I share our vision with you, put this picture in your mind. Imagine a business being able to turn on mission critical applications that require dedicated network connectivity the same way they grab applications via the internet. But with our new capabilities, they'll be able to do it instantaneously in a more secure predictable way. Think about that. Now this is a disruptive force. And we're enabling an enterprise data center and applications marketplace throughout our network and services platform to create this new future. And we're collaborating with leading providers in this space. We believe we can address customer's needs in a way that's completely different from anything currently in the marketplace. And different than the traditional Telco service model.

Here's what we're hearing from customers about their issues in acquiring dedicated network services to meet their needs. The first issue is security. Today due to the growing use of cloud applications, many businesses are faced with using the internet, which has no visibility, no guarantee of performance, and it's inherently unsecure at a time when cyber security has never been more at the forefront of enterprise's considerations.

The next issue is flexibility. Customers want service when they want it, how they want it, and only as long as they need it. That means by the slice, by the hour, or by the compute cycle. Think about it. Each customer has a plethora of applications, each with their own bandwidth needs and they want flexibility.

The next issue is choice. Customers also want connectivity to thousands of applications that exist today as well as those being developed for tomorrow. And they want to connect to best of breed applications in a secure, rapid, and efficient way.



The other issue, issues include speed and ease of use. Much like when consumers pick up their Smartphone and press a button to download an application in seconds, that's what enterprises want. But they don't want to do this over the internet. They want to connect in a dedicated secure way for their critical business needs.

So now let me tell you how we plan to change the markets with our future constellation platform. Our constellation platform vision is to create the ability for customers to have instantaneous dedicated connections to buildings, data centers, and cloud services on our network through our secure and reliable services platform and network assets via simple click and connect type of use, which they can have for hours, days, or weeks depending on their needs. This vision includes giving customers connectivity to any building or data center on our network without having to submit a traditional Telco service order, which is very time consuming and without having to wait weeks for services as they do today with most providers. For example, if customers needed disaster recovery solution in one of the hundreds of data centers that we're connected with, they'll be able to connect themselves immediately with our new platform. Think about the customer's options combined with the power and control that gives them and how we are changing the game.

With our vision, we're building a community of interest driven by enterprises and a large community of data center and applications providers that they need to interact with to manage their connectivity needs. And we believe our future constellation platform will change the operating paradigm of all of these players. And in turn, drive their businesses forward.

In fact, just a couple of weeks ago, I met with one of the largest data center operators in the United States and was talking to them about their vision. And actually before I even walked in the door, they were already impressed with our current intelligent network capabilities including enhanced management and dynamic capacity. And then when I talked to them about this broader vision of click and connect for instantaneous network connections and services, their immediate response was, and I quote, this is a game changer. They thought our vision completely changes the paradigm for not only their data center opportunities, but also for their application provider's customers. And then the conversation got really fun as they immediately started discussing the new products that they could potentially offer their customers using our new capabilities.

To scale our vision, we will be leveraging a large and growing opportunity. It includes leveraging the 18,000 buildings directly connected today to our fiber network, leveraging the key data center connections including the more than 400 third party data center locations that we serve today, and leveraging our relationships with some of the world's largest applications providers.

Basically, we're leveraging all of our existing assets and all of the investment we've already made. We've built this big beautiful and powerful fiber network connecting up all of these capabilities that we thought to ourselves, why do we have to connect to these customers the same old way everyone else does. Why not change it? Why not do it differently and make it easy for customers? Why not be a disruptive force? And that is what we're doing here because the customers are telling us that this is what they want.

So imagine you're a customer today needed to select a network provider. The first thing you need to do is purchase six dedicated capacity. And you're looking at multiple vendors, including tw Telecom. Now assume they all provide basic bandwidth connectivity as that's table sticks. Now on top of that, consider all the value adds that tw Telecom provides. We can deliver network visibility to monitor performance across your entire network end-to-end through our enhanced management. We deliver control of your bandwidth allowing you to adjust your bandwidth for changing needs through our dynamic capacity. We will deliver dynamic control and prioritization of key applications to address your changing priorities through our future application's aware capabilities. And we will deliver the flexibility to click and connect instantaneously to dedicated services through a portal to a data center or application provider to streamline the buying process through our future constellation platform.



We think the choice is clear. And that's why we believe this vision will be a disruptive force in the industry that will continue to grow our strategic services revenue.

So let me turn to a few customer examples of how our intelligent network exemplifies the future opportunities we see ahead of us. Our first customer example is a financial services company in Charlotte that established new services including our dynamic capacity capabilities between two data centers to support data storage and a proprietary finance application. The customer started with 50 Meg of fix service, but quickly discovered their application needed a peak bandwidth of 150 Meg. As a result, the customer doubled their fixed bandwidth to 100 Meg and then relied on dynamic capacity to cover their maximum bandwidth needs, which is a great example of how the customer benefitted from our innovation while we sold more strategic services.

However, the story gets even better as this customer also uses our enhanced management visibility for two scenarios. First, as a tool to aid the migration of one of their in-house applications to a remote data center, the real time segment specific network data provided by enhanced management helped the customer to determine how to improve the application's performance for their employees.

Second, our enhanced management supported a two site equipment deployment allowing the customer to correctly allocate the number of end users between the two locations at the initial deployment saving the customer time and money.

Our second customer example is a media company in Indianapolis. This customer purchased dynamic capacity capabilities between their primary and secondary data centers. The customer loved how quickly the increased bandwidth helped them resolve troubleshooting performance issues with their applications. The customer told us that dynamic capacity saved them hours of troubleshooting since they could immediately see it was not a bandwidth or network issue, which is a terrific customer experience.

The third customer is an insurance company in Florida. This customer moved their data center from their premises to a third party data center. And they were unsure of how much bandwidth they would need to manage data backup. The customer quickly enjoyed being able to increase their bandwidth for its' periodic increased bandwidth needs for storage replication and large file transfers that they needed while moving their applications from the corporate office to the data centers.

All of these examples described how customers benefitted from our innovation while we sold more strategic services. So hopefully, those examples help you see why our vision of the intelligent network is gaining traction and is contributing to our success.

While I've described our vision for our future constellation platform, the fact is we're working today to make this a reality. We're in deep development mode for these capabilities, which is why we decided to accelerate our growth initiatives because we're seeing that the demand is there. We're architecting, building, and testing these capabilities. And we've already forged alliances with some of the most powerful data center and applications providers in the country.

Before I close, let me summarize our opportunity. As many of you know, there are huge companies and various smaller organizations that are making enormous investments in the cloud. The projected growth in that space is staggering and is disruptive to the computing space.

Simply put, everything I've been speaking to you about today is to further insert ourselves into that revenue opportunity by delivering the arteries or lifelines that allow enterprises to reach the cloud providers and the cloud providers to reach the enterprises. And we're doing it in a new way that we believe others cannot. We're very excited about the future and that's why we're investing in this vision.